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| S&P 500 | 2,171 | +25 | +1.09% |
| GlobalDow | 1,104 | +13 | +1.14% |
| Gold | 1,965 | +30 | +1.53% |
| Oil | 1,165 | +18 | +1.56% |
| | 77.56 | 0.09 | 0.12% |



POWER SUPPLY | GENERATION | FINANCIAL | MEMBER SERVICES | RISK MANAGEMENT | SUSTAINABILITY

Modifications to RPM to Accommodate State Public Policy Initiatives

October 16, 2017 PJM CCPPSTF



Perspective

- Department of Energy's NOPR is yet another signal of concern with the results of competitive wholesale market
 - State Actions, 27 major rule changes since 2010
- AMP supports competitive markets
 - RPM is an administrative construct moving further from market principles
- States have the right and authority to develop public policy so long as payment of funds are not conditioned on capacity clearing the auction.
- Current structure of RPM is a barrier to states implementing public policy decisions (explained further in AMP's Executive Summary)
- RPM supports an oversupply (>IRM+) which should produce low prices.
- A simpler capacity construct in conjunction with improved energy price formation is required.

Actionable Subsidy

Actionable Subsidies include any payments, concessions, rebates, or incentives other than Market Revenue where Market Revenue is defined as revenue that is received under a tariff administered by PJM or other RTO or ISO and regulated by the Commission but shall **not** include payments (including payments in lieu of taxes), concessions, rebates, subsidies or incentives:

- that are consistent with and part of a public power business model made to a municipal utility, a cooperative utility, a joint action agency or any instrumentality of the state;
- designed to incent participation in a program, contract or other arrangement that promotes general industrial development in an area;
- are from a county or other local governmental authority using eligibility or selection criteria designed to incent the siting of facilities in that county or locality rather than another county or locality;
- are from the federal government and are available to generators without regard to the geographic location of the generation (e.g., production tax credits, investment tax credits, and similar tax advantages);

Actionable Subsidy (cont.)

- that are supported through any contracts obtained in any state-sponsored or state-mandated procurement processes that are deemed to be Competitive and Non-Discriminatory as specified in Attachment DD, Section 5.14 h) (7) ii);
- that are unknowable or unquantifiable; or
- that are in exchange for a tradeable credit that both:
 - 1) represents the environmental attributes of one megawatt hour of energy produced from a renewable energy resource as defined by a state or federal law; and, 2) is not contingent on the price of energy or capacity.

Accommodation

- Accommodation means making a place for; making room for - **not** modifying something to conform to narrow, administrative boundaries
- There must be a place for state policy decision within the entire market (which is organically larger than RPM)
- States should be free to offer subsidies for specific units or technologies
- Eligible resource owners would need to decide whether to:
 1. Decline the subsidy offer and either enter into a bilateral contracts or participate in the ARA; or
 2. Accept the subsidy in lieu of seeking additional capacity revenue and thus opting out of the ARA
 - Opting out of ARA does not relieve a resource from any performance obligations consistent with the rules associated with RPM
 - Not eligible to enter into a bilateral contract

Long-term, Bilateral Contracts in RPM

- Current construct does not incent long-term bilateral transactions
 - Buyer and seller expectations are not aligned
- We believe this is because suppliers have an alternative to a long-term bilateral via an administratively determined result that could be higher for the short-term and has the hope of continued modification to ensure price is maintained
 - e.g.: repricing proposals
- LSEs are not required to transact bilaterally and can rely on RPM for any or all of their capacity requirements.

Benefits of AMP's Modifications to RPM

- Accommodates state policy decisions while recognizing and preserving jurisdictional limitations.
 - States can only obligate the entities over which they have jurisdiction (varies by state)
- Simpler construct
- Less administrative and more market-focused
- Allows for consumers to be potentially shielded from price volatility
- Maintains single-stage clearing price mechanism within the BRA

RPM Components Unchanged from Current Construct

- Unit performance (CP) and penalties remains the same for resources that receive a capacity obligation from the PJM auction
- Unit specific procurement
- No economic withholding
- RTO reliability requirement (IRM process)
- Locational
- Demand Response Participation
- Determination of CONE and Net CONE for reference unit
- Auction design: sealed bid
- Auction construct: VRR curve

Modified Design Components

- Capacity Procurement Term: Equal to or greater than 1 year
 - Procurement via PJM administered auction, self-supply, or bilateral contract
- Replacement of the three year forward Base Residual Auction (BRA) with a one year forward Annual Residual Auction (ARA)
 - Offers the benefit that the load forecast is more accurate the closer it is to the point in time for which it is being used (i.e., 1 year ahead should be more accurate than 3 years ahead)
 - Would negate need for multiple incremental auctions
 - Existing design has been subject to discussion for possible revisions multiple times, including within the current IASTF

Interaction between Bilateral Market, PJM, and the IMM

- Any capacity with a bilateral or self-supply arrangement must notify PJM and the IMM with the quantity (up to UCAP)
 - Any additional available capacity (up to UCAP) must be offered in to the ARA
- Any load with a bilateral or self-supply arrangement must notify PJM and the IMM with the quantity
 - Any outstanding obligation (inclusive of IRM) not satisfied bilaterally or self-supply will be procured on the load's behalf within the ARA
- Any bilateral transaction will include the terms of the arrangement for submittal, **but not approval**, by PJM and the IMM
 - Price: for price discovery, reports after the BRA produced by the IMM and/or PJM; parties to the bilateral would be masked
 - Terms: the length (# of years) of the bilateral arrangement
 - PJM and market participants will be able to know how much capacity has a contractual obligation in multiple future years

Sample ARA Timing Calendar

- Status quo timing for release of planning parameters and conducting the ARA but the auction is held 1 year forward not 3 years.
- PJM determination of planning parameters 16 months before the DY (February 1 of the year before the start of the DY on June 1)
 - Next year of need is DY 2021/22 (June 1 – May 31)
 - February 2020: Planning Parameters for May 2020 ARA
 - May 2020: Annual Residual Auction for DY 2021/22
 - March 2021: Annual Incremental Auction held for DY 2021/22
 - Same timing as for when the Third Incremental Auction is held today, three months forward

Summary

- Implement new process for 2021/22 Delivery Year
 - BRA's already conducted for DY 2018/19, 2019/20, and 2020/21
- The Annual Residual Auction (ARA) will provide an additional option for uncommitted supply and load with remaining obligations
- The Annual Incremental Auction (AIA) allows PJM to purchase or sell capacity depending on changes to load forecast within some tolerance (like today), change in capacity obligation (e.g., change in capability from uprates), and/or unit failure (e.g., catastrophic failure)
- Transparency and price discovery opportunities will be improved via the ARA, the compilation and reporting of masked bilateral arrangements, the AIA, deals transacted on secondary exchange, as well as PJM's calculation of relevant reference unit price(s)
- States will be able to pursue any public policy initiative with resources that meet PJM established performance requirements

Proposal

- Evolving
- Feedback welcome and encouraged